

Board Diversity and Financial Performance; Evidence from Kenya

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ABSTRACT

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Using panel data from firms listed on the Nairobi Securities Exchange during the period 2004-2014, this paper examines the effect of board diversity and firm performance. Specifically the study investigates the effect of independent directors, board size, gender and financial expertise of directors and firm performance. The study finds, steadily with trends in most countries, the representation of women on the corporate board remains low. Regression results indicate that board independence has a negative and significant relationship on firm performance. The study also finds that gender diverse boards perform better as measured by Return on Assets (ROA).

Key Words; Gender, diversity, Financial Performance, Independent directors and Financial Expertise

Background of the Study

Capital market participants, in particular institutional investors and ethical funds, are paying closer attention to the governance and top management of listed companies. One common desideratum is to increase the representation of different stakeholders. The board of directors has long been recognized as an important corporate governance mechanism for aligning the interests of managers and all stakeholders to a firm. The need to adopt the right corporate governance mechanisms is driven by the agency problem and the associated free-rider problem that makes it difficult for any single investor or stakeholder to bear the cost of monitoring managers (Sanda, 2011).

The central role of board of directors in this process has therefore been recognized and in recent years has gained significant attraction for at least two reasons. First both

developed and other developing economies are struggling to attract resources for investment in an increasingly competitive global environment. Secondly, events at Enron, Worldcom, Barings Bank, Imarbank, and Lehman brothers had on the global economy among others supports the need for policies to promote aspect of corporate governance.

Although most of the literature recognizes the role of the board in financial performance, there is scant evidence concerning the role of boards of directors in such management decisions. It is quite perplexing, particularly when corporate governance guidelines all over the world empower boards of directors with the mandate to oversee the running of corporate entities and are held accountable for corporate performance. More so, all managerial decisions are presented to the board of directors for approval; thus,

decisions about whether a firm will borrow or not require the approval of the board. We therefore propose that because boards of directors monitor and advise management concerning the firm's decisions, financial performance of the firm is influenced by the composition of the board.

Most of emerging economies, a typical firm is characterized by weak corporate governance mechanisms, concentrated ownership, family ownership, and higher levels of managerial power (Al Farooque *et al.*, 2007; Jackling and Juhl, 2009; Young *et al.*, 2008; Gottardo and Moisello, 2013). To worsen this situation, even when good corporate governance mechanisms are in place, weak legal and institutional mechanisms make it difficult for firms to be governed. Typical corporate governance research has focused on developed countries (Rajagopalan and Zhang, 2008; Perrini *et al.*, 2008; Harford *et al.*, 2008; Yoshikawa and Phan, 2005) to the exclusion of emerging countries. However, a small amount of research has been carried out into the extent to which corporate governance issues in developed countries are applicable to emerging countries (Jackling and Juhl, 2009). However, these studies into emerging markets have been carried out in Asia, and the Middle East which have unique corporate governance mechanisms that differ greatly from those in Kenya.

The motivation for studying corporate governance in an emerging country such as Kenya arises due to the increasing application of corporate governance guidelines and the absence of empirical studies linking corporate governance to financial performance.

Kenyan Context

Trading in shares in Kenya started growing in 1954 when the Nairobi Stock Exchange (NSE) was constituted as a voluntary organization of stockbrokers (Ngugi, 2003). The introduction of NSE saw the introduction of rules and regulations governing stock trading, along with initiatives to promote the capital market, such as the Capital Issue Committee (CIC) and Capital Market Authority (CMA), established in 1990 through the Capital Market Authority Act (Cap 485A) in order to regulate stock market activities (Kemboi and Tarus, 2012). The CMA had a mandate to regulate corporate governance mechanisms of the firms listed on the stock exchange.

In this regard, the authority initiated a number of measures to address issues of corporate governance: for instance, it facilitated the enactment of the corporate governance code, in the form of a Sample Code of Best Practice of Corporate Governance in Kenya 2002, in order to strengthen governance mechanisms among Kenya's listed firms (Tarus and Aime, 2014). Among the corporate governance structures suggested, in order to improve the quality of decisions in the listed firms, was the composition of the board (The Capital Market Act, Cap. 485A, 2002).

The corporate governance guidelines and regulations for intermediaries provided by capital market authority (CMA) recommends that one third of board members should be independent and the board should have at least eight board members. The guidelines further requires

that the CEO and chairman positions should not be held by one person, otherwise the authority should be notified the reason thereby. It also states that the board should have a balance of skills, experience and members should be from various backgrounds. Furthermore, the CMA guidelines require that outside directorship by board members be not more than five. The guidelines also require that all directors shall be needed to submit themselves for re-election at regular intervals and at least once every three years.

Despite of widespread regulatory reforms undertaken to improve corporate governance mechanism, Kenya is characterized by a weak legal and regulatory framework (Tarus, 2011; Gakeri, 2013) just like any other emerging economy. For instance, in the past few years there have been a number of corporate failures occasioned by financial distress among listed firms. This phenomenon of financial difficulties in Kenyan public companies has been witnessed by the increase delisting of companies. Notable cases of corporate failure include Kenya Bulk medical limited, A Baumann, Kenya Corporative Creameries, Uchumi Supermarkets, and CMC Kenya Ltd., in 2012 among others (Ngugi *et al.*, 2009).

The main reasons attributed to these corporate failures are their inefficient boards (Waweru, 2014). Although CMA has enacted and implemented the corporate governance guidelines, there remains a need to determine whether board composition and a corporate governance mechanism enhance effective decision making in Kenya.

This study sought to analyse the relationship between board diversity and financial performance in Kenya, using a panel of 39 Kenyan firms listed on the Nairobi Securities Market during the period 2004-2014, using a Random Effects regression analysis. This paper contributes to the extant literature along the following dimension. Firstly, to the best of our knowledge, this study is the first in the literature to examine the relationship between board diversity and financial performance in Kenya. Secondly, this study provides evidence that board diversity is related to the financial performance of firms. Specifically, the study found that board size and board independence significantly influence financial performance.

The paper is organized as follows: In section 2 we discuss related theories and formulate our hypotheses. Section 3 describes the way in which we constructed the sample and the specification of the model. Section 4 presents the results of our descriptive and multivariate analysis of the relationship between board diversity and financial performance. Finally, Section 5 provides discussion and concluding remarks.

Theory and Hypotheses development

Two organization theories, resource dependence theory and agency theory, provide the broad theoretical underpinnings for how board diversity influence firm performance. Resource dependence theory offers the rationale for the board's function of providing critical resources to the firm including legitimacy, advice, and counsel (Hillman and Dalziel, 2003). These board resources offer the

corporation support in understanding and responding to its environment (Boyd, 1990) that can help it better manage performance. Agency theory is based on the premise that executives are opportunistic and that they pursue selfish interests to the detriment of shareholders (Jensen and Meckling, 1976). This divergence of interests precipitates conflicts between shareholders and management, which results in agency cost. One of the major costs incurred by shareholders is the need to monitor management through the introduction of a layer of scrutiny in the form of a board of directors (Fama, 1980; Fama and Jensen, 1983). The board of directors is charged with the responsibility of monitoring the decisions and actions of management, thereby reducing opportunistic behavior.

Agency theory provides the rationale for the board's critical function of monitoring management on behalf of the shareholders (Eisenhardt, 1989; Fama and Jensen, 1983). In order to exercise its monitoring function the board needs the appropriate mix of experience and capabilities to evaluate management and assess business strategies (Hillman and Dalziel, 2003). A third organization theory, signaling, provides an additional basis for our discussion of the relationship between board gender composition and firm performance.

Boards of directors have different characteristics, which all contribute to firms' corporate governance mechanisms, though some characteristics provide more controlling mechanisms than others. In this study, we examine some of the variable facets of board diversity that are commonly

discussed in the literature, such as board independence, board size, financial expertise and women.

Board Size

Board size is an important determinant of corporate governance effectiveness (Jackling and Johl, 2009). Resource dependency theory suggests that increased size may yield benefits to the firm by providing a network to the external environment and by securing a broader resource base (Pfeffer and Salancick, 1978; Pearce and Zahra, 1992). Board size is defined as the total number of directors on the board in a particular year (Maeri *et al.*, 2014). According to Jackling and Johl (2009) board size is an important determinant of corporate governance effectiveness. Resource dependency theory board size can be viewed as a proxy to measure the diversity of the knowledge pool and the availability of resources provided by the board. A larger board is more likely to have a wider range of skills, knowledge and expertise which in turn may contribute to both its monitoring and servicing roles (Corbetta and Salvato, 2004). Moreover a large board may counter the influence of the CEO (Maereet *al.*, 2014). As per agency theory the main argument in favor of a larger board of directors is that the increase in the number of members raises their disciplinary control over the CEO (Brédart, 2014).

Larger board impedes the coordination, which prevents boards from participating in strategic decision making and in turn lowering both the monitoring and service roles (Raheja, 2005; Harris and Raviv, 2008). More often than not, in the case of large

boards the members get divided into sub-groups who are at loggerheads with each other which do more harm than good to the company (Cadbury, 2002) compared small boards. The argument behind this view is drawn from a managerial entrenchment perspective, which postulates that when boards are small they act as active monitors, thereby reducing managerial entrenchment. Relatedly, because small boards are effective in monitoring management, they are likely to influence the decisions of managers. Therefore, smaller boards are effective in controlling managers and in influencing managerial decisions, resulting in higher firm performance. Thus, we propose that

Hypothesis 1: A small board is positively related to financial performance

Board Independence

Independent director is a director who has no affiliation with the firm other than the affiliation derived from being on the firm's board of directors (Beasley, 1996). The Kenyan Capital Market Authority Act, Cap. 485A defines an independent director as a director who has not been employed by the company in the last five years, who is not related to a senior member of management, who has no contract with the company, and who is not a member of the immediate family of senior managers. Thus, a director is deemed independent if he/she is independent of management and free from any business or other relationships that could interfere with the exercise of independent judgment.

The question of the effectiveness of independent directors in protecting the

interests of the shareholders is, however, one of the most debated and researched issues in corporate governance.

Most importantly, scholars argue that the presence of independent directors enhances the protection of shareholders' interests by increasing the effectiveness of decisionmaking and monitoring executives (Baysinger and Butler, 1985; Mishra and Nielsen, 2000; Young, 2000; Uzun *et al.*, 2004). However, in spite of this, others argue that independent directors may not provide much sought after effectiveness, for several reasons: for instance, such directors are less knowledgeable and lack the necessary hands on experience to question management effectively

(Roberts *et al.*, 2005); they may also get over involved in executive decisions, thereby creating self destructive friction between management and independent directors (Roberts *et al.*, 2005) further, in some cases, independent directors may be dominated by management, thereby rendering independent directors mere rubberstamps (Hendry and Kiel, 2004).

Consistent with agency theory, boards with a significant number of independent directors can limit the exercise of managerial discretion by exploiting their monitoring abilities. Thus, independent directors are normally considered strong, because of the minimal influence exerted upon them by executives (Maug, 1997). Because boards dominated by independent directors are more likely to act in the best interests of shareholders (Hermalin and Weisbach, 1988; Byrd and Hickman, 1992), it is expected that such boards might pursue shareholders goals at the expense of management interest, and thus use higher

financial performance. We therefore hypothesize that

Hypothesis 2: Higher representation of independent directors is positively related to financial performance

Female directors

In addition to director resource diversity, gender composition that is the number of women on the board is expected to have an impact on social financial performance. According to Hillman et al., 2002 on boards, women are more than twice as likely as men to hold a doctoral degree. Compared to male directors, female directors gain board experience with smaller firms and are less likely to have prior CEO or COO experience (Singh *et al.*, 2008). Female directors are more likely than male directors to have expert backgrounds outside of business and to bring different perspectives to the board (Hillman *et al.*, 2002).

Therefore, having more female directors may sensitize boards and provide perspectives that can be helpful in improving firm performance. Increasing board gender diversity (which, for all practical purposes, means increasing the number of women on boards) can enhance decision making, as a wider variety of perspectives and issues are considered and a broader range of outcomes is assessed (Daily and Dalton, 2003). The presence of more female directors may stimulate more participative communication among board members, if one assumes that gender differences in leadership styles, as evidenced in some studies, also exist at board director levels. If female directors are more participative (Eagly *et al.*, 2003),

democratic (Eagly and Johnson, 1990), and communal than men (Rudman and Glick, 2001), then having more women on a board could encourage more open conversations among members of the board. A broader perspective may enable the board to better assess the needs of diverse stakeholders. The result may enhance the board's ability to effectively influence firm performance.

Women directors are generally younger than their male counterparts in terms of age by approximately four to five years (Simpson *et al.*, 2010) implying that women not only influence board diversity in terms of gender but also in terms of age, therefore contributing to diversity view of the board. In their study Adams and Ferreira (2009) observed that overall, gender-diverse boards have increased levels of boardroom involvement and corporate oversight and allocate more effort on monitoring, and also boards with a greater female presence have higher levels of meeting attendance.

The primary way in which boards operate and conduct business is through meetings and thus, attendance is a crucial factor of a successful board (Adams and Ferreira, 2009). These authors note that women were less likely to have attendance problems and that having females on boards results in better attendance by male directors. Clearly, the female influence in this area is quite important; increasing attendance should result to better boardroom discussion and higher levels of effectiveness. Women bring specific advantages to board decision-making when it comes to board strategic tasks (Nielsen and Huse, 2010) that gender diverse boards have less conflict and are

associated with more strategic control and board development activities.

Women provide, unique role on boards which is often reflected in their participative management style and in higher sensitivity compared to their male colleagues (Bradshaw & Wicks, 2000). This ability, combined with women's attention to and consideration of the needs of others, may lead to women's active involvement in issues of strategic nature that concern the firm and its stakeholders. Female directors are more likely than male directors to have expert backgrounds outside of business and bring different perspectives to the board (Hillman *et. al.*, 2002). Therefore having more female directors may sensitize boards to environmental initiatives and provides perspectives that can be helpful in addressing issues of environment. Increasing board gender diversity (which, for all practical purposes, means increasing the number of women on boards) can enhance decision making, as a wider variety of perspectives and issues are considered and a broader range of outcomes is assessed (Daily and Dalton, 2003).

The presence of more female may stimulate more participative communication among board members. The reasons why women should be included in the board is the embody a large pool of human capital that is available in an organization and also by the virtue of gender that they are usually minority of the board and therefore more of an outsider and less beholden to management and hence serve as better monitors of managers (Simpson *et. al.*, 2010).

Gender diversity can also affect the board's critical function of monitoring management. Having more women on the board enhances the board's expertise by increasing the range of professional experience and augmenting the number of board members with advanced degrees (Hillman *et al.*, 2002). These added qualities brought in by female board members enable the board to more effectively monitor management (Hillman and Dalziel, 2003). We therefore propose that

Hypothesis 3 Higher percentage of women director improves financial performance

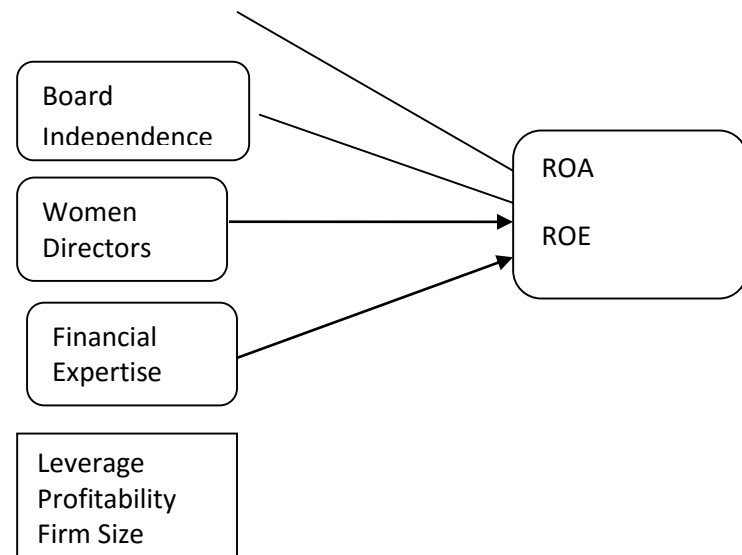
Financial Expertise

A director is considered a financial expert if he/she posses the knowledge and experience in finance related areas (Iskandar *et al.*, 2013; Guner *et al.*, 2008). The recent wave of financial scandals in the world has caused concern on the need for financial/accounting experts to be on board to ensure greater accountability on wide range of issues (Guner *et al.*, 2008). Financial literacy of board of directors has been identified as one of the most significant factors that increase the credibility of company financial position from the perspectives of the customers, banks, and government bodies (Hasyudeen, 2003). Appropriate financial experience and expertise of board members is negatively associated with financial distress (Kroll *et al.*, 2008; McDonald *et al.*, 2008).

Guner *et al.*, (2008) stressed that it is important for board members to have an understanding of accounting principles and financial statements which will lead to better board oversight and this will serve to

the best interest of shareholders. Finance experts significantly affect the finance and investment policies of firms on whose board they serve (Guner *et al.*, 2008). According Kor and Sundaramuthy (2009) directors who have reasonable financial backgrounds are more effective in providing internal control system mechanisms to control firm performance and hence financial distress. Johl *et al.*, (2015) also found a positive and significant relationship between accounting expertise and financial performance of Malaysian firms. The Cadbury Committee (1992) emphasized on the importance of financial literacy with the argument that it can enhance the effectiveness of the board. Empirically, financially literate board members are found to be more efficient and effective in carrying out their role (Pomeranz, 1997; Libby and Luft, 1993). Therefore, the existence of qualified board members enhances the integrity of the board in controlling and monitoring firm management. This is supported by resource dependency theory that a board equipped with adequate skills and expertise it enhances its monitoring and controlling roles. Qualified board members are wiser and able to provide leadership for the company. Their existence in the company instills more confidence among the capital providers (Daily, 1995). Thus we hypothesize that

Hypothesis 4: Financial expertise of directors' is positively related with financial performance



Methods and Data

The data used in this study was derived from publicly listed firms in Kenya during the period 2004-2013. The total number of firms listed on the Nairobi Securities exchange (NSE), as at the end of 2013, was 57: these firms fall under different sectors of the economy, such as agricultural, commercial and services industry, telecommunications and technology, automobile and accessories, investment, manufacturing and allied, and construction. We considered only firms that traded throughout the period under study: thus, firms that were first listed after 2004 and those that were suspended during the period were excluded. The total number of firms used in the study was 39, yielding a total of 390 firm year observations.

We collected data from a number of secondary sources. The data on board composition was drawn from financial reports, under the Directors/Corporate Governance Report sections. For companies whose reports did not provide adequate

director information, the same information was collected from company websites. All the data on control variables and the dependent variable were collected from financial reports, as well as from the NSE yearend reports, monthly reviews, and the NSE handbook

Measurement of Variables

Firm performance will be measured using ROA and ROE as measured by (Sanda *et al.*, 2011; Taghizadeh and Saremi, 2013).

Director independence: Director Independence will be measured as the percentage of membership held by the outside independent directors, which has been considered in prior studies (Zahra and Stanton, 1988).

Gender diversity is the number of women in the board, Adams and Ferreira, 2004; Bilimoria and Piderit, 1994; Daily *et al.*, 1999; Farrell and Hersch, 2001; Kesner 1988).

Board size is defined as the number of directors on the board (Kaymak and Bektas, 2008; Perrini *et al.*, 2008). Thus, consistently with other studies, we measured board size by counting the number of individuals serving on the board of directors (Tarus and Aime, 2014; Singh and Davidson III, 2003).

We incorporate control variables into the analysis, particularly variables known to affect capital structure. Firm size was measured as a natural log of total assets (Anderson *et al.*, 2004; Perrini *et al.*, 2008).

Industry was measured as a dummy variable and controlled in the study, because firms in different industries adopt

varied capital structures (Jensen, 1989) thus affecting financial soundness of a firm. According to Nwachukwu and Mohammed (2012) firms in the manufacturing industry have assets with a collateral value that improves their capacity to borrow which have a bearing on financial performance. Therefore, consistent with the approach used by Barroso *et al.*, (2011) and Plambeck and Weber (2010), this study assigned “1” to firms in the manufacturing sector and “0” to the rest.

In line with previous studies, profitability was controlled in the study because of strong indications of its effect on financial performance. Thus, consistently with literature, profitability in this study was calculated as earnings before depreciation, interest, and tax (EBDIT), divided by total assets (Sirtaine, *et al.*, 2005) and Maere *et al.*, 2014).

Financial expertise of directors is the number of directors who possess knowledge and experience in finance related areas (Iskandar *et al.*, 2013; Guner *et al.*, 2008). Thus following studies by Iskandar *et al.*, (2013) and Guner *et al.*, (2008) directors were classified as financial experts if they possess the knowledge and experience in finance related areas.

Model Specification

$$ROA = \beta_0 + \beta_1 P_{it} + \beta_2 FS_{it} + \beta_3 I_{it} + \epsilon_{it} \dots \dots \dots \text{Model 1}$$

$$ROA = \beta_0 + \beta_1 P_{it} + \beta_2 FS_{it} + \beta_3 I_{it} + \beta_4 BS + \beta_5 BI_{it} + \beta_6 W_{it} + \beta_7 FE_{it} + \epsilon_{it} \dots \dots \dots \text{Model 2}$$

$$ROE = \beta_0 + \beta_1 P_{it} + \beta_2 FS_{it} + \beta_3 I_{it} + \epsilon_{it} \dots \dots \dots \text{Model 3}$$

$$ROE = \beta_0 + \beta_1 P_{it} + \beta_2 FS_{it} + \beta_3 I + \beta_4 BS_{it} + \beta_5 BI_{it} + \beta_6 W_{it} + \beta_7 FE_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 4}$$

ROA/ROE= Firm financial performance of firm i (i=1, 2....44) in time t(t=1, 2...10), BI=Board Independence, BS= Board Size, W= Women Directors, FE= Financial Experts, P= Profitability, FS=Firm size, I= Industry ε_{it} = the random error terms

Results

Table: 1 Descriptive Statistics

	Mean	Std. Deviation	N
ROA	1.106	0.361	390
ROE	1.284	0.153	390
Profitability	0.326	0.614	390
Firm Size	0.409	0.285	390
Board Size	8.765	2.314	390
Board Independence	3.887	0.005	390
Director Financial expertise	0.930	0.091	390
Women Director	0.146	0.146	390

Source: Research Data 2015

Empirical Results

Several tests were performed before the regression analysis. Firstly, we tested for the presence of multicollinearity using Variance Inflation Factors (VIF) and Tolerance. Multicollinearity exists when two or more predictor variables are strongly correlated (Field, 2005), and Hair *et al.*, (2006) suggested a threshold of VIF values of 10. Each of the variables used in this study, including the control variables, range from 1.138-1.951, suggesting the absence of multicollinearity. We also tested for the presence of heteroscedasticity, which is a common problem in panel research. Although there are several ways of dealing with the problem, such as generalized least

squares, fixed effects, and random effects (Kraatz and Zajac, 2001), this study used random effects regression. Independence of error terms was tested using a Durbin-Watson statistic, and the results ranged between 1.619 and 1.937, which is within the threshold of 1.5-2.5 (Hair *et al.*, 2006).

Jarque-Bera (JB) test for normality was used to for normality of error terms. According to Bryset *al.* (2004), the JB tests the hypothesis that the distribution of error terms is not significantly different from normal ($H_0: E(\varepsilon) \sim N(\mu=0, \text{Var.}=\sigma^2)$). The results of the tests are presented in table 4.2. The results show

that the significance levels for the Jarque-Bera statistics were greater than the critical p-value of 0.05 implying that the errors were not different from normally distributed (Tanweer, 2011).

Research Findings

Hypothesis 1 tested whether there is a positive relationship between smaller board and financial performance. The results showed negative but significant relationship between smaller board and financial performance ($\beta = -0.125$; $p < 0.05$). Therefore, the hypothesis is not supported. Hypothesis 2 predicted a positive relationship between board independence and financial performance. Results showed board independence a positive and significant relationship with financial performance ($\beta = 4.042$; $p < 0.05$). The hypothesis was accepted. Hypothesis 3 tests whether gender diversity has a positive and significant effect on firm performance. The results is positive and significant $\beta = 3.012$ $p < 0.05$) thus the hypothesis was supported. Implying that presence of women directors does improve financial performance.

Finally, fourth hypothesis postulated a positive relationship between director's financial expertise and financial performance of the firm. The results was positive and insignificant ($\beta_1 = -0.213$; $p < 0.05$) thus, the hypothesis was rejected.

Discussions and Conclusions

In this paper, we have examined the relationship between board composition and capital structure using data from firms listed on the Nairobi Securities Exchange. Specifically, the study investigated the effect of board composition variables; director board size, independence, gender, and financial experts on financial performance.

Our analysis suggests the following findings: Firstly, higher representation of independent directors has a positive association with financial performance; secondly, small board size is negatively related to financial performance. Our first finding supports the view that independent directors are effective monitors this is consistent with agency theory (Jensen and Meckling, 1976). Thus, the results of this sample indicate that independent directors are associated with positive financial performance.

The results relating to board size indicate a negative significant relationship between small board size and financial performance. Our results indicate that firms with smaller boards tend to have lower financial performance. This findings is in supports resource dependence theory which is in favour of a larger as it is more likely to have a wider range of skills, knowledge and expertise which in turn may contribute to both its monitoring and servicing roles

(Corbetta and Salvato, 2004; Maere *et al.*, 2014). As per agency theory the main argument in favor of a larger board of directors is that the increase in the number of members raises their disciplinary control over the CEO (Brédart, 2014). The study also found that gender diversity has a positive and significant effect on firm performance. Although the results of previous studies have been equivocal, both proxies of gender diversity indicate a positive and significant relationship. Drawing from agency theory, firm performance is enhanced when the objectives of both the executives and shareholders are synchronized. Indeed, studies have found that women are more likely to hold CEOs accountable for poor performance and are better monitors (Adams and Ferreira, 2009). In this sense, the more women are represented on the board, the more CEOs and top management will be held to account for poor performance, and results expected to improve. Our finding is supported by studies conducted by Tarus and Chepkuto (2014) who found a positive relationship between gender and firm performance in Kenya. The results for financial expertise was also not significant, possibly the reason as to why directors with financial related skills and experience may not be an effective control mechanism Kenya, could be due to the structure of ownership associated with firms.

By and large, our study seems to suggest that the board plays an important role in the decision making of the firm. Although, governance codes in Kenya are a duplication of western codes some of the vital variables where insignificant such as

women directors. The effectiveness of directors depends mainly on their skills, and it is therefore important to recommend the need to study the skills of board members to determine their effectiveness to carry out their mandate.

The study is opportune, both in terms of practice and theory. First of all, it has enhanced understanding of how boards of directors influence management decision-making concerning firm performance. Secondly, the significant relationship between board independence and firm leverage, it is an indicator to the fact that independent boards have strong monitoring abilities, and therefore the composition of boards should take cognizance of members who are independent of management. The study has made some contributions to the literature. It is clear that although it is a constitutional requirement for boards to be comprised of at least one-third women, a lot still needs to be done in Kenya to achieve the threshold. It is important to note the study's limitations. Firstly, the study has relied on archival data, especially information contained in financial statements. Secondly, while the study has considered important board variables, there are other board measures that are particularly key in a Kenyan context, such as audit committee, Tenure, ownership structure, and the interaction of variables. Thirdly, the study was based on a sample of firms listed on the Nairobi Securities Market, which may be considered a small sample. This may limit the generalizability of the findings. Future research using a larger sample size and different types of firms (for instance private non-listed firms)

may provide additional insights and enhance our understanding of the issues explored here.

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